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Approved For Release 2002/01/03 : CIA-RDP79-01090A000500020011-3

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FAR EAST/PACIFIC BRANCH
OFFICE OF REPORTS AND ESTIMATES
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WORKING PAPER

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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 52
18 May - 24 May 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The issue of US troop withdrawal from Korea has been complicated by opposition to the move expressed by the Philippine UNCOK member (p. 2).

Despite a slowdown in the south China drive, the Communists achieved several military successes last week (p. 2). Meanwhile, the divided Nationalists continue plans for the evacuation of Canton, a move that will probably mean an end to diplomatic contact with the West (p. 3).

The Commonwealth Aid Program in Burma, apparently off to an auspicious start, may offer the opportunity to apply judicious pressure on the Burmese Government for an end to the Karen-Burman dispute (p. 5).

Decisions by the French Chief of Staff, presently visiting Indochina, will probably reenforce recommendations made in the past which require an accelerated military campaign and US material assistance (p. 6).

A critical period in the implementation of agreements reached at the Batavia discussions is approaching in Indonesia (p. 7).

President Quirino has been left in a potentially embarrassing position by the hasty adjournment of the Philippine Congress (p. 7).

Moderates of the New Zealand Federation of Labor were triumphant in issues raised at the Federation's annual conference last week (p. 8).

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Philippine Delegate opposes Korea withdrawal--Rufino Luna, Philippine representative to the United Nations Commission on Korea (UNCOK), told Korean Government officials on 21 May that he is convinced the Korean Republic cannot now defend itself successfully against attack. Luna strongly opposed the scheduled withdrawal of US occupation troops from Korea and stated that US forces should remain until UNCOK has been able to extend representative democracy into the northern zone of Korea and discover the facts about Soviet troop withdrawal from that area. Luna had previously introduced an unsuccessful resolution at one of UNCOK's sessions, designed to impede US withdrawal. "B"

While Luna's attempt to forestall withdrawal is consistent with Philippine desires for continued US security commitments in the Pacific, it is equally important as evidence of the real attitude of President Rhee and his Kitchen cabinet of US advisors with whom Luna has close contact. When informed on 17 May that US troops would be evacuated within the next few weeks, Rhee appeared resigned to the fact of withdrawal. Rhee's press releases have nonetheless continued to request formal US assurances of aid against aggression as a preliminary condition to withdrawal, to the embarrassment of US Ambassador Muccio. Luna's statement may encourage Rhee to continue his campaign for a formal US commitment to defend Korea, but it is doubtful that Rhee will attempt to block withdrawal at this late date. Luna's action, however, will add to the confusion and uncertainty in Seoul generated by speculation regarding troop withdrawal and Rhee's press campaign to obtain formal US aid commitments.

CHINA

Military Situation--While the Communist advance into south China slowed "A" during the past week, new successes were scored in Shensi, to the west, and central China. The Nationalist defense of Shanghai, meanwhile, grew steadily weaker and the evacuation of Tsingtao, the Nationalists' last North China foothold, approached completion.

South China: Few important new gains were made in the CCP thrust into south China, but Communist forces reportedly occupied Wenzhou, an important port on the Chekiang coast. Last reported positions of Liu Po-cheng's southernmost spearheads were Ningtu in southeast Kiangsi and Nanping in Fukien. Liu has apparently paused for the moment, perhaps to regroup his forces before carrying out his expected rendezvous with Communist irregulars a short distance further south.

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The Communist press in Hong Kong frontpaged the capture of 7 hsien in northeast Kwangtung by the East River People's Liberation Army, Communist irregulars operating in the Nationalist rear, some 75 miles south of Liu's forces. Communist irregulars hold extensive areas of Kwangtung province and are in an excellent position to aid the oncoming CCP armies. Canton, eventual Communist target in Kwangtung, is presently garrisoned by some 50,000 Nationalists, classed as regular troops but incapable of withstanding any sustained Communist offensive. This garrison, nevertheless, presents an impediment to a quick Communist occupation of Canton, since Liu's light forces will be in no position to mount an immediate assault against a defended city.

Shanghai: Nationalist defenses of China's first city have been somewhat better than anticipated. The Whangpoo escape corridor has been kept open successfully, despite Communist attacks along the Pootung side of the river, east of Shanghai. Nationalist units are gradually withdrawing northeast toward Woosung at the river's mouth and a full-scale assault by the Communists from the southwest and west appears imminent. CHIANG Kai-shek, who is reportedly directing the city's defenses, may be able to salvage about 50% of his forces before the city falls to the Communists.

Central China: Following the occupation of the Wuhan cities, Communist forces have advanced some 50 miles south along the Canton-Hankow railway. To the east, they occupied Nanchang, the capital of Kiangsi and an important rail juncture on the Chekiang-Kiangsi line. Nanchang is the fourth provincial capital to fall to the Communists in their drive south of the Yangtze.

Northwest China: The reported Communist occupation of Sian, capital of Shensi, on 20 May, is of particular significance, since Sian has been the seat of HU Tsung-nan's power for more than a decade. HU, a loyal CHIANG man, commands some 175,000 troops, the largest uncommitted anti-Communist force remaining in China. Reports indicate that HU has been engaged in evacuating his forces to the southern part of the province and to Szechwan, and that Sian was an undefended city when the Communists entered.

End of National Government near--The National Government, as presently constituted, probably will not survive the impending move from Canton. Hopelessly divided, Nationalist leaders now are chiefly concerned with establishing local bases of power in China or with finding personal security abroad. Although Acting President LI Tsung-jen reportedly plans to establish Chungking as a "provisional capital", only a few top officials and administrators are likely to accompany him there. Many right-wing Nationalists will go to Taiwan instead, where CHIANG Kai-shek may join them. Although these die-hards may urge CHIANG to resume the presidency, he probably will continue his backstage role for some time. Meanwhile, still other Nationalist leaders are trying to arrange a compromise between LI and CHIANG.

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The foreign diplomatic missions in Canton probably will not go either to Chungking or to Taiwan. Nationalist China thereby will lose its chief remaining asset, the regular international status it has held for more than twenty years. Such a loss probably will be fatal to both the Chungking and the Taiwan factions.

This interruption of diplomatic contact with the National Government in China may hasten granting of de facto recognition to the Communists, an objective viewed as desirable by representatives of various western powers in China. The replacement of a friendly Nationalist China by a hostile Communist regime is, nevertheless, an unfavorable development of first importance to the western world.

NEWS NOTES

Growing autonomy in the Southwest--At a recent meeting of the Southwest Peoples' Representatives' Conference, delegates from Szechwan, Sikang, Yunnan and Kweichow resolved to end National Government authority and place their provinces under the direction of CHANG Chun's Southwest Military and Political Headquarters at Chengtu. This action makes it unlikely that Acting President LI Tsung-jen would receive effective provincial support for any attempt to make the southwest a center of continued Nationalist resistance to the Chinese Communists. CHANG Chun, furthermore, is reported to feel that the situation is hopeless and continued resistance useless. It can thus be assumed that the southwest will continue as a non-Communist area only until it is attacked.

Famine threat in North China--Drought has already delayed planting in North China. If it continues, it will effect crop outputs seriously, with resultant shortages throughout the region and the prospect of famine in numerous localities. North China's food position is already sensitive, because of low production during last year's fighting and military requisitions. Famine could seriously retard the Communist program of economic rehabilitation and political consolidation. Besides the considerations of lost prestige, any reduction in the collection of export commodities which a famine would cause means a decrease in Communist trade prospects for 1949-50 and thus a decrease in necessary industrial imports.

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Commonwealth Aid Program--The Commonwealth approach to the perplexing "A" problem of giving effective assistance to Burma, without jeopardizing its own interests or antagonizing the Burmese Government, is gradually taking shape. The Commonwealth Ambassadors in Rangoon, who form an ad hoc committee for the study of Burma's financial needs and arms requirements, have resorted to the ingenious expedient of naming as chairman Defense Minister Ne Win, who has been notably antagonistic regarding Burmese-Commonwealth cooperation. The committee has recommended that arms for two infantry battalions be supplied immediately and a subcommittee on financial assistance is expected to be established in the near future. Having successfully wedged a foot in the door, the Commonwealth may be expected to exert pressure upon the Burmese Government to accept its "advice." The recommendation to supply arms is little more than a token of assistance, since the Burmese already have more small arms than trained personnel. Nevertheless, further assistance can now be made contingent upon effective utilization of materiel provided and the British Ambassador has already reported that arms and money alone will not be enough to restore Burmese stability. The UK, therefore, has suggested (with Ceylon and India agreeing in principle) that Prime Minister Thakin Nu be informed that he "would be well advised" to make peace with the Karens and other dissident groups, if possible. Although such dealing with the Burmese is risky and its success by no means assured, it is a sensible way of achieving the necessary preliminary steps toward a solution of Burma's difficulties with a minimum of dreaded "foreign interference."

Meanwhile, the Burmese Army has once more announced its "occupation" of Insein, the Karen stronghold 10 miles north of Rangoon, following its evacuation by the Karens after nearly four months of fighting. The entire Insein episode, if it is now in fact ended, has been a serious reflection on Burmese military capabilities, since the Karen garrison has never exceeded an estimated 2000 armed men. The Karen withdrawal from Insein was probably dictated for a variety of reasons, among them, shortages of ammunition and food, and the realization that the monsoons would prevent reinforcement or resupply for some months.

Perhaps the most important reason for the Karen withdrawal may have been the recent announcement of Commonwealth assistance to the Burmese Government. The Karens, the most pro-Western element in Burma, had hoped for foreign intervention in their behalf and the Commonwealth action undoubtedly caused them keen disappointment, particularly since Burmese military forces have been engaged in a campaign of Karen extermination.

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Should the Burmese Government accede to the intended Commonwealth pressure for a settlement with the Karens, the Karens will almost certainly accept, especially if the Commonwealth's influence in the action is evident. If Commonwealth military assistance is used to continue war against the Karens, however, their disappointment will be further reinforced and their pro-Western attitude, which could be a valuable factor in the eventual stabilization of Burma, may well be altered.

INDOCHINA

French Chief of Staff surveys Tonkin problem--The continuing decline of the French military position in Tonkin has resulted in a visit to Indochina by the French Chief of Staff, General Revers. Besides studying defense of the area, current disposition of troops and materiel, and the question of reinforcements, Revers is expected to effect long-overdue changes in the high command. He may be guided by the reports of an Assembly subcommission on military expenditures which, among other things, recommended replacement of present equipment with materiel better adapted to guerrilla warfare during a visit to Indochina in April. The visiting Deputies were shocked by the difficult conditions under which the French Army operated as well as the "deplorable insufficiency and condition of their arms."

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Although the subcommission did not approve complete evacuation of northern Tonkin posts and withdrawal to the restricted Hanoi-Haiphong-Langron complex, they considered that the maintenance of certain garrisons for prestige purposes was costly in men and materiel. The subcommission emphasized that an overall military solution to the Indochinese problem was prerequisite to the political solution envisioned in the Bao Dai agreements and specified that early US military aid was a necessary condition to the reestablishment of military control. The views of the subcommission and of other French official visitors to Indochina have persuaded the French Government to consider additional appropriations for financing a greater military effort in Indochina. General Revers is undoubtedly studying ways and means of most effectively utilizing the expected increase of military reinforcements.

While the theory that French military success is a condition to French political success has many bases in fact, the past two years of fighting in Indochina have demonstrated that only by tremendously increasing their military commitments will the French be able to overcome the resistance. The fact that France alone cannot provide the necessary additional materiel and manpower for this effort inevitably raises the question of the extent to which US resources could be employed without jeopardizing US prestige in the Far East in the event of a French collapse in Indochina.

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INDONESIA

Jogja Restoration Problems--Further progress on the implementation of the Dutch-Republican agreement will depend both on the ability of the Republic to control Communist activity and restore law and order and on an orderly Dutch withdrawal from Jogjakarta. While the Republicans initially intend to use their army (TNI) as auxiliary police, they hope to have a regular civil police force take over as soon as possible. The problem of arming and equipping this civil police force is the most urgent facing the Republic today. Netherlands representative Van Royen is supporting the Republican request for supplies but anticipates less than full cooperation from Dutch Army officials. The Army has promised 2,500 uniforms, however, and is considering the question of trucks and jeeps.

Civilians who wish to leave have been evacuated from Jogjakarta by the Dutch Army at the rate of 3,000 a day since 21 May. Full evacuation should be completed by the end of May, if the estimate of 30,000 evacuees is correct. The contemplated Dutch military withdrawal will probably take another six days after that. This military withdrawal will represent the beginning of a crucial period, during which events may well determine whether the political settlement will be advanced or whether military action will continue.

PHILIPPINES

Adjournment of Congress may embarrass Quirino--The Philippine Congress adjourned its 100-day session in the early hours of 20 May. Neither the 1949-50 budget nor most other important administration measures had been passed. The abrupt adjournment followed further shifts of alignment in the Senate where two factions of the Liberal Party had been fighting for supremacy since mid-February, while the minority Nacionalista Party held the balance of power. On 19 May, the Nacionalistas suddenly shifted to support the Avelino Liberals in a movement to depose Senate President Cuenco (a Quirino supporter). Upon learning of this maneuver, Cuenco permitted the Senate to adjourn at its appointed time--midnight, 19 May--instead of continuing in session. The House of Representatives adjourned a few minutes later.

Although Cuenco's action saved the Quirino Liberals from defeat in the Senate, it left the Administration facing the coming election with virtually no important legislation enacted. In order to rectify this situation, Quirino may call a special session of Congress or he may use his emergency powers, but either course is disadvantageous. The emergency powers, assumed by President Quizon in December 1941 and never withdrawn, are highly unpopular and use of them would probably evoke

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considerable criticism. If Quirino should call a special session of Congress, on the other hand, his current loss of control in the Senate might well result in a legislative deadlock which would further undermine his prestige.

NEW ZEALAND

Labor Moderates defeat Communists---A substantial majority vote to withdraw from the Communist-dominated WFTU, as well as the election of moderate officers by a wide margin and a vote of confidence in the Labor Government, marked last week's stormy sessions of the annual New Zealand Federation of Labor conference. By the meeting's end, it was evident that Communist influence in the trade union movement had been further weakened. The Federation spent two days in heated debate on the "Carpenters' dispute." (The Carpenters, a Communist-led union, were recently "deregistered" by the Government). Left-wing members accused the Federation executive and the Government of betraying the workers. In reply, moderates and the Minister of Labor accused the Carpenters' Communist leadership of seeking the downfall of the Labor Government through their prolonged dispute, which sharply curtailed construction and inspired sympathy strikes throughout NZ industry. Prime Minister Fraser appealed for support of the Government's decision to uphold the arbitration system threatened by the Carpenters' dispute, and the issue was resolved by a vote of confidence which upheld The Labor Government, 209 to 57.

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